

AN EXPLORATORY STUDY ON HUMAN RESOURCE OUTSOURCING

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DEDICATION

I would like to dedicate this research to my Savior, my Lord and my Inspiration, Jesus Christ who gave me all the blessings in terms of finance and resources for my research. I am glad because His grace is always sufficient for me. In addition, I would also like to express my gratitude to my family members; especially my parents and God's family members who always encourage me throughout the progress of fulfilling this research. It would have been an arduous task for me to accomplish this research without all your support and encouragements.



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ABSTRACT

Malaysia is a developing country with a competitive environment. Hence, there is an in full potential to grow in the market. In the era of rapid economic growth, HR department plays an important role in company. HR function outsourcing is important as it helps companies to be more efficient and deemed to cut cost. Outsourcing is defined as a delegation of non-core tasks by company to the outsourcing company due to the substantial amount of time and resource required by employee management. This research is aimed to explore current issue and challenge of HR, factors affecting HRO and the benefits of HRO in manufacturing industries, Malaysia. In this qualitative study, data were collected from six manufacturing companies by using multiple case study method. Purposive sampling had been chosen and semi-structured interview was used to collect the relevant data. In this research, it was found that the HR decision for adopting HRO is to improve manpower effectiveness, and not only to reduce cost, which is one of the most cited reason in the previous studies. Manpower management is very important because it can generate many benefits in many areas of the company, such as production and administration are managed properly. The productivity of the operation and the quality of the products are determined by the effectiveness of manpower management through outsourcing. Outsourcing produces benefits in financial terms. Therefore, if a company channels the resources to the right places and maximises their function, it will help the company to achieve high returns with low cost in the upcoming years. As for outsourcing training, once the company experienced the transformation of the employees' mindset, the positive mindset will then increase their motivation at work.

ABSTRAK

Malaysia ialah sebuah negara berdaya saing dan berpotensi tinggi untuk berkembang di pasaran. Pada zaman yang ekonominya bertumbuh pesat, bahagian sumber manusia memainkan peranan yang penting dalam sesebuah industri. Penyumberan luar sumber manusia merupakan langkah strategik yang penting untuk membantu industri menjadi lebih efisien dan mengurangkan kos. Penyumberan luar sumber manusia didefinisikan sebagai pembahagian aktiviti-aktiviti yang bukan teras daripada industri kepada syarikat yang penyumberan sumber manusia oleh kerana kebanyakan kuantiti masa and sumber digunakan dalam permintaan pengurusan pekerja. Tujuan kajian ini dijalankan adalah untuk meneroka isu-isu semasa dan cabaran dalam sumber manusia, faktor penyumberan luar sumber manusia dan kebaikan penyumberan luar sumber manusia dalam industri pengeluaran, Malaysia. Dalam kajian kualitatif ini, data yang dikumpulkan daripada enam industri pengeluaran dengan menggunakan kaedah kajian kes. *Purposive sampling* telah dipilih dan temuduga struktur separa digunakan untuk mengumpulkan data yang berkaitan. Dalam kajian ini, didapati bahawa tujuan penyumberan luar sumber manusia dilakukan adalah untuk meningkatkan keberkesanan sumber manusia, dan bukan sekadar mengurangkan kos yang merupakan salah satu sebab yang paling banyak dipetik di dalam kajian-kajian yang lalu. Pengurusan tenaga kerja adalah sangat penting kerana ia dapat menjana banyak manfaat dalam banyak bidang seperti pengeluaran dan pentadbiran syarikat. Produktiviti operasi dan kualiti produk ditentukan oleh keberkesanan pengurusan tenaga kerja melalui penyumberan luar sumber manusia. Penyumberan luar sumber manusia menghasilkan manfaat dari segi kewangan. Oleh itu, jika sesebuah syarikat menyalurkan sumber pada tempat yang betul dan memaksimumkan fungsi sumber syarikat, ia akan membantu syarikat tersebut untuk mencapai pulangan yang tinggi dengan kos yang rendah pada tahun-tahun akan datang. Bagi latihan penyumberan luar, apabila pekerja mengalami transformasi

dari segi mindanya, pemikiran yang positif akan meningkatkan motivasi mereka di tempat kerja.



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CHAPTER 1

INTRODUCTION

1.1 Introduction

Human resource outsourcing is a delegation of non-core tasks by the company to the outsourcing company or service provider due to the inadequacy of time and resource. According to Sriwongwanna (2009), outsourcing HR task is one of the ways to improve the company's efficiency. Outsourcing is a strategic tool that is being used by companies in a competitive environment (Corbett, 2004). It can allow HR administrative work to gain more strategic value (Hern & Burke, 2006), re-focus on strategic activities, decentralize structure, mitigate bureaucratic load if HR administration is centralised, and approach new ideas from external service providers (Seth & Sethi, 2011). Cost reduction is not only the key driver to attract companies to adopt outsourcing, it also opens an entry for company to access specific knowledge, expertise and tools in Northern Europe, such as Sweden, Norway and the UK (European Outsourcing Survey, 2013). Outsourcing is not only limited to the IT sector (Singh, 2006), it encompasses business processes which are Information Technology (IT), HR, manufacturing, management service, distribution and sales of products or services, manufacturing of the final product or purchasing, product design, engineering, and Research & Development (R&D) (Halim *et al.*, 2011). Outsourcing is a widespread activity which has become a common and accepted business practice (Bradac & Sirec, 2008). HRO has also increasingly become popular among the organisations (Azhar & Shehzadi, 2013). The global market for HR outsourcing is estimated to achieve US\$53.9 billion by 2020, stimulated by the growing need among enterprises to increase operational efficiency, reduce cost, streamline operations and step up compliance management (Global company

analysts, 2016). Figure 1.1 shows the trend of global outsourcing. It can be seen that it has been a transformation process of the global outsourcing from the past until recent years.

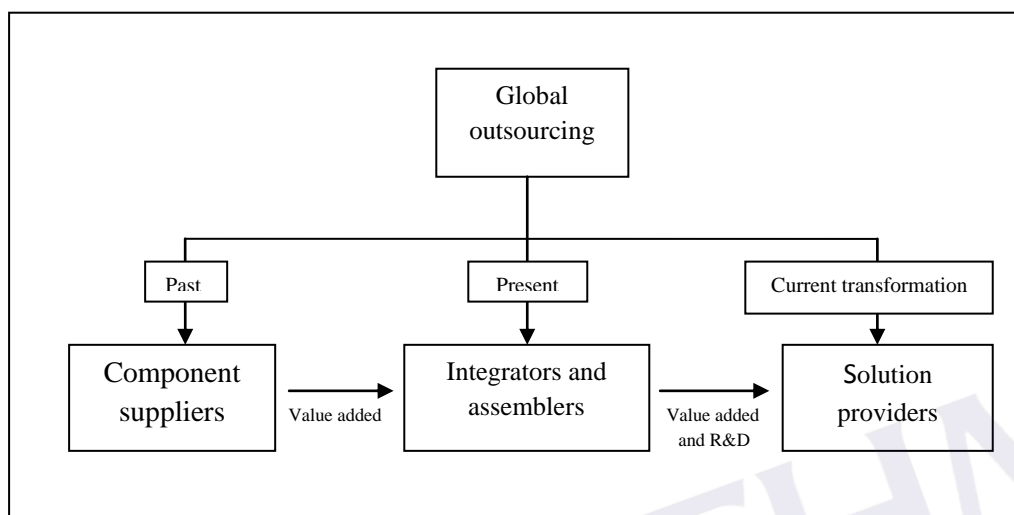


Figure 1.1: Global outsourcing trend (Mida, 2012)

1.2 Background of Study

Malaysia is considered as a developing country with a competitive environment hence there is an enormous potential to grow in the market. In the era of rapid economic growth, HR department plays an important role in a company. The appearance of HR outsourcing in Malaysia is becoming a trend especially in the manufacturing sector. According to Halim *et al.*, (2011), many organisations realised that outsourcing is important to expand the organisation operation by helping the organisation to focus the strategy and planning on the core competencies. Malaysia is also among the world's top 20 trading nations, so the government's emphasis on HRM is focussed on the manufacturing sector (Halim & Che-Ha, 2011). Based on the observation of SHRM (2008), HR is growing continuously and it is transforming from an operational function to a more strategic function where results need to be evaluated and cost controlled. The employees in the organisation play critical roles that make outsourcing a vital strategy to deliver high-performing workforce (Brown, 2010). However, the study by Choi and Wan Ismail (2008) revealed that HR

Professionals in the Malaysian manufacturing sector are still weak in certain roles and lack of knowledge.

Shortage of skills and several other factors have driven organisations to adopt new ways to effectively manage the human capital (Wiblen, Grant & Dery, 2010). The improvement of the organisation's performance is very critical nowadays in order to increase the competitive level of the organisation. Competitiveness can be a key driver of the economy (Productivity Report Malaysia, 2014). The organisation's HR and administrative activities are not obvious ways to boost manufacturing productivity (Halim *et al.*, 2011). As Corbett (2004) mentioned, there is no organisation which can stay competitive longer if the organisation relies solely on internal resources.

Outsourcing is one of the business tools that can help the company to perform fully to their competencies in the business. Outsourcing is a technique to strengthen organisation core competencies; therefore, company should identify the core activity and main area of the respective company, so that can avoid spending resource in non-core competencies (Corbett, 2004). The company can also reduce the need to hire specialised staff and lower the operating expenses thereby cutting down the processing time. Generally, organisations would outsource services such as catering, cleaning, employee transportation and security to the third party because those activities are the non-core activities which are considered non-core competencies that would not affect the benefits of the organisation (Kamyabi, 2011). Through this study, it is the researchers' intention to bring out the latest HR issues in Malaysia and the research questions are drawn out from the highlighted HR issues. This chapter includes the background of the study, aim, significance, scope of study and organisation of the thesis.

1.3 Problem statement

Based on the results of the APAC survey report, HRO is still in its embryonic stage (Mandy, 2012). HR outsourcing as a competitive strategy in Malaysia is still quite new and it contains tremendous potential benefits which are still not fully comprehended (Ee, Halim & Ramayah, 2013). According to Delmotte & Sels (2008), future research should be focused on the impact of HRO, because there are very few

studies which investigate the impact of HRO on the organisation of the HR function (Internal human resource customer satisfaction). Consistent with the research of Halim & Che-Ha (2010), despite increasing HRO practice, the empirical investigation in this area in Malaysia is still limited. Studies carried out in this area encouraged future researchers to collect information in this area regardless of the size of employees and the year of establishment in order to generate the scenario of the small organisations. Even small companies that might not get noticed much in big studies of outsourcing trends turn to outside services for help on such chores, such as payroll, benefits administration, training and recruitment (Seth & Sethi, 2011). As HR outsourcing development in Malaysia has not been intensively studied, managers may still encounter a lack of information on how to select the right service providers and how to manage the outsourcing relationship (Ee *et al.*, 2013).

Manufacturing based firms face a variety of challenges as today's business market) is greatly competitive and aggressive if compared to 20 years ago. In other words, technological expansion is happening from time to time, and around the world (Hilman & Warokka, 2011). The change of industrialization strategy in Malaysia toward building a nationally owned and controlled automotive industry in the early 1980s is indicated by the Heavy Industrial Policy has indicated (Govindaraju, 2011). The local automotive industries maintain relatively good achievement in the year 2014 and 2015 (Malaysian Automotive Association, 2016). Othman (2008) believed that Malaysian electrical and electronics companies make up a strategically influential sector which plays important roles to the country's manufacturing productivity, exports and employment. Moreover, with increased globalization and global competition, mergers and acquisitions, organizations in their sector are facing increased challenges in their constant quest to extend new knowledge and employee commitment, pursue innovation and creative scheme; and manage change. Therefore, strategic deployment of their human resources is required

1.4 Research Questions

The research questions formulated for this research are as follow:

- i) What is the existing outsourcing HR in the electronic and automotive companies?

- ii) What are the issues and challenges of existing HR faced by electronic and automotive companies?
- iii) What are the factors that drive existing HR practices to adopt HRO in the electronic and automotive companies?
- iv) How has HRO benefited human resource management?

1.5 Aims of the study

This research aims at exploring current issues and challenges of HRO in manufacturing companies. In this research, it also explores the factors that drive existing HR practices to adopt HRO and to understand the benefits of HRO for existing HR practices to the manufacturing companies.

1.6 Objectives of Study

The objectives of this research are

- i) To identify the existing outsourcing HR in the electronic and automotive companies.
- ii) To explore the current issues and challenges of HRO for electronic and automotive companies.
- iii) To explore the factors of HRO that drive existing HR practices for electronic and automotive companies.
- iv) To explore how has HRO benefited human resource management.

1.7 Significance of Study

The outcome of research is expected to benefit future researchers by providing knowledge for academic purposes. It identifies the factors and impacts of HRO which can be a reference for manufacturing companies that are interested to adopt HRO in their management.

1.8 Scope of Study

The respondents of this research would cover the automotive and electronic companies located within the state of Selangor, Malaysia. This research was conducted in Selangor due to the fact that there are numerous manufacturing and outsourcing companies in this state. National Automotive Policy (2014) was implemented to initiate more investment prospects as the nation's automotive industrial direction is geared towards the manufacturing of energy-efficient vehicles. Malaysia has been graded third largest automotive market after Indonesia and Thailand in terms of total vehicle production and sales in year 2013. According to MITI report (2014), the Electrical and electronic companies are Malaysia's largest manufacturing sub-sector in terms of GDP contribution. It is also one of the key drivers of Malaysia's exports and industrial growth. These companies have developed a significant volume in the manufacturing of a wide range of semiconductor devices, high-end consumer electronic goods and information and communication technology products.

1.9 Organisation of Thesis

This thesis is organized into five chapters.

Chapter 1 includes an introduction, background of the study, problem statement, research questions, objectives of study, significance of the study, scope of the study, the organisation of the thesis and summary.

Chapter 2 presents the introduction, HR functions, the current issues and challenges of HR, emerging trend of HRO, definition of HR management, definition of HRO, and benefits of HRO. This chapter will also discuss the factors affecting HR functions outsourcing; theories of the framework and the impact of the HR functions outsourcing.

Chapter 3 describes the methodology used to carry out the research, such as introduction of methodology; research design; process of research; purposive sampling; case study data collection; case study protocol; validity and reliability; and data analysis technique.

Chapter 4 comprises of results and data analysis. Four parts of the interview are analysed. Part A is regarding the description of the companies; Part B is about exploration of the issues and challenges of existing HR faced by manufacturing companies; Part C is about exploration of factors of HRO for manufacturing companies; Part D is the exploration of the benefits of HRO for existing HR practice to the manufacturing companies.

Chapter 5 consists of discussion from the data analysis. It examines the analysed result with regards to the objective. Further discussion relating to the current issues and challenges of HRO; factors of HRO; and the benefits of HRO for existing HR practice to the manufacturing companies will be covered in this chapter. Besides this, the limitations of this research and further recommendations are also proposed. Finally, a conclusion of this research shall be made based on the research questions and objectives.

1.10 Definition of Key Term

Human resource outsourcing : HRO is defined as delegation of non-core tasks by outsourcer to the third party due to the lacking of time, resources, skills and certain knowledge.

Human resource functions : Human resource functions are categorised into 2 groups, which are core and non-core task. The purpose of HR function is to support HR with business strategy.

Company performance : Company performance is the impact of HR functions outsourcing, such as financial, service or product quality and productivity.

Member checking : The process of member checking involves the researcher who will pass the data to the respondents in order to check the validity of the narrative account.

1.11 Summary of Chapter

This chapter provides the background of the study. It covers the introduction of the chapter, background of the study, the problem statement, the research questions, objectives of the study, significance of the study, scope of the study, organisation of the study and a summary of chapter. In this research, the current issues and challenges of HR, factors of HRO, and benefits of adopting HRO are investigated.



CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents an overview of HR functions outsourcing. It reviews factors affecting the company's decision and determines the challenges in adopting HRO. The impacts of HR functions are examined from the performance of the automotive & electronics companies. A summary of the main issues discussed and the findings from the review of the literature are also presented here.

2.2 HR Functions

Based on Brown (2010), HR functions are being requested to support HR with business strategy as organization desires to attract, attain and develop employees. HR functions included core (for example HR planning and development) and non-core tasks (for example: payroll and benefits administration) (Azhar *et al.*, 2013). Some tasks help HR functions to shape its investment or policies in order to sustain critical core knowledge (Sparrow, 2013).

Figure 2.1 shows the cost and value of the HR tasks (administrative, service development and strategy) in the traditional department. About 60% of time and resources are committed to the administration, such as record-keeping and paperwork; 30% of the time and resources are devoted to the service delivery, such as development, training, compensation and management; 10% of time and resources are spent on strategy-planning. However, the value of administration is relatively lower than strategy planning though the cost of administration is much higher than strategy-planning (Robert, 2005). Traditionally, HR functions are performed in-house (Braun, Pull, Stormer & Thommes, 2011). However, many administrative

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